

business topics

VOL. 5

JANUARY, 1958

NO. 4

CONTENTS

HOW TO PLAN SALES AND MARKETING STRATEGY

By B. E. Estes 1

PROFITS, PRODUCTIVITY AND PERSONNEL ADMINISTRATION—A LOOK AT THE FUTURE

By J. W. Oram 5

YOUR COLLEAGUE—THE BRAZILIAN BUSI- NESS ADMINISTRATOR

By Stanley E. Bryan 11

LAST MINUTE ADVICE ON INCOME TAX DEDUCTIONS

By Cecil R. Upham 19

CURRENT BUSINESS CONDITIONS

By John H. Hoagland 27



BUREAU OF BUSINESS AND ECONOMIC RESEARCH

College of Business and Public Service

MICHIGAN STATE UNIVERSITY

EAST LANSING

Survey of Tourist Industry

A line joining Saginaw and Muskegon divides Michigan into two startlingly different economic regions. Below this line lies 40 percent of the state's area and 87 percent of its population. Above it lies 60 percent of the state's area, but only 13 percent of its population. Industrial growth for Michigan largely depends upon the intelligent development of the northern areas.

Recent social changes are presenting solid opportunities to this northern area which is so rich in scenic beauty. The shorter working week and rapidly rising standard of living together make the tourist industry a booming business. In 1956 about 80,000,000 Americans took a vacation trip spending about \$12 billion on foreign and domestic travel. Some 9,000,000 vacationists spent nearly \$600 million in Michigan. Since competition for this business is extremely keen and highly organized, it is appropriate for thinking Michigan citizens to inquire into the status of our tourist industry.

The Bureau of Business and Economic Research is conducting a random sample of persons who vacationed in the state during 1956. This survey is being conducted for the Michigan Tourist Council who are anxious to add to their knowledge of this market and thus improve upon their excellent advertising campaigns. The study will also indicate ways in which the industry can compete most effectively.

A 10,600 random sample was drawn from people who had indicated an interest in taking a Michigan vacation in 1956. Questionnaires were sent out asking these people to supply certain kinds of information. Typical questions were as follows:

- (1) Which state did you come from?
- (2) Where in Michigan did you stay?
- (3) How many persons were in your party?
- (4) How much money did you spend on the vacation?
- (5) What did you most like about Michigan?
- (6) What did you most dislike about Michigan?
- (7) Can you suggest anything we could do to improve your stay?
- (8) Do you plan to return to Michigan?

To date 2,000 replies have been received. Some 300 of the 8,000 non-respondents are being contacted by phone so that their opinions may be included in the final tabulation.

This kind of information will be invaluable to the Michigan tourist industry which is so vital to the economy of our state. It is hoped that more detailed studies will be undertaken later to assess the impact of tourist spending on the state economy and how this source of income can be best encouraged.



Vol. 5 January, 1958 No. 4

"Let your discourse with men of business be short and comprehensive."

(George Washington's *Copybook*).

Business Topics is published bi-monthly by the Bureau of Business and Economic Research of the College of Business and Public Service of Michigan State University, East Lansing, Michigan. Opinions expressed in articles are those of the writers, and do not necessarily represent the editorial point of view.

Dean of the College

ALFRED L. SEELYE

Business Research Committee

**HELEN GREEN
RICHARD W. LINDHOLM
DAVID MOORE
R. F. SALMONSON
ARTHUR WARNER
RALPH WILSON**

Director of the Bureau

ELI P. COX

Associate Editor

ANNE C. GARRISON

Published as a service of Michigan State University for all those interested in business and economic matters. Entered as second-class matter at the Post Office at East Lansing, Michigan, on June 10, 1953, under the authority of the Act of August 24, 1912, as amended by the Act of August 4, 1947.

HOW TO PLAN SALES AND MARKETING STRATEGY

By B. E. ESTES*

Two phases of market planning, short-range and long-range, are examined in relation to other aspects of corporate planning, and to valid measurement of the attainment of goals.

What is marketing planning? It is the bridge which ties together such commercial functions as market research, sales training, advertising, sales promotion, product development, and selling into the unified whole which we call marketing.

The first thing to recognize about planning is that all business planning must be a continuous process, and approached as such by both planners and users, if it is to be an aid to progress, rather than a millstone around the neck of action. Perhaps this point of view is even more vital in the case of marketing planning than in any other type of corporate or business planning, for marketing planning which causes a business to become more static rather than more dynamic has failed in its prime purpose and had better be thrown into the trash can.

It must be a continuous process in two separate senses. For one thing, short-range plans for 1958 or any other early period, must be a part of and related to those longer-range plans which apply to the more distant future. Unless plans for tomorrow take the business along the path which has been laid out for the years beyond, they are of little value. Without a long-range view, planning for the year ahead, however careful, can be based only on expediency.

Equally important to continuity, marketing planning must be flexible, constantly adjusting to those changing conditions which impinge upon a business from the outside and to those new ideas which come to it from the inside. Next

to having no plans at all, the greatest marketing sin is failing to change and revise plans as the situation requires. At times plans may continue to be sound for many months; at other times changing conditions may require their frequent revision. The year 1958 may well be one of those years in which most marketing plans must be regarded as subject to alteration at any time. In my judgment, however, we should not regard this as unusual; for it has been our experience of the last ten years that even an expanding economy, operating at high level, punctuated by only two minor dips, has not by any means eliminated the need for flexible marketing plans.

The Function of Facts

Planning must start with facts and forecasts. Facts tell the planner where his company has been, and where it now is. They provide the basis for forecasting the future. My emphasis here is upon this latter function of facts. What kinds of forecasts are required? It is obvious that they must cover the period for which we are planning, and that they should be in appropriate detail by product and by area. For example, if we are going to develop marketing plans for plates, sheets, wire pipe, and all finished steel products, a forecast of ingot demand is of little value. If what we need is a separate plan for each part of the United States in which we sell, a forecast of total domestic demand is far from adequate.

Types of Forecasts

Our experience at U. S. Steel has shown the need for two general types of

*Mr. Estes is Director of Staff Administration, the United States Steel Corporation, Pittsburgh, Pa. This article is adapted from an address given before the Sales Management Conference of the Detroit Sales Executive Club, in Dearborn, Michigan October 15, 1957.

forecasts for planning use. The first is a forecast of actual sales or shipments for a relatively short period into the future: fifteen months or less. The second type of forecast extends for ten to twenty years into the future and deals not with actual levels but with normal and peak levels.

Short-range factors. In my judgment, it is completely beyond the realm of possibility to predict actual levels more than a year or two into the future. This is because the factors which cause year-to-year fluctuations are essentially short-range ones. For example, those factors (such as tight or loose money, the political situation, and international developments) which are going to make 1965 a good year, or a fair year, or a poor year will not begin to emerge until 1963 or 1964; hence they can scarcely be predicted today.

Long-range factors. On the other hand, as we look some time ahead we can predict with some degree of validity longer-range factors such as population, its age distribution, changes in income distribution, productivity, hours to be worked, the broad outlines of technical progress, and the like. Based on such factors, we may forecast normal and peak levels for our total economy, our industry, and our markets far into the future. It is possible to make such forecasts for next year, for the next five years, and for much longer periods. As we go further and further into the future, the accuracy of our forecasts, naturally, diminishes and the detail into which we can logically go becomes less and less. This need cause us no concern. In the first place, as we move into the more and more distant future, it is reasonable to turn to broader and broader business planning. So many unforeseeable things can happen that detailed planning for ten years ahead is of no value except, perhaps, as a mental exercise. Furthermore, the forecast can, and should, be revised several times before the long-range future becomes the short-range future, and

finally the present. At each revision accuracy can be improved, detail increased, and planning made more specific.

Forecasts and Objectives

The first use of forecasts is in setting an objective for a company within the framework of what has been forecast for the economy and the industry. There may be many possible objectives within the framework of a single forecast, because any objective implies some sort of action on our part. In arriving at a firm objective, it is usually helpful to set several tentative or trial objectives based on stated types of action, qualified by a rough estimate of the expenditures which would be required for each.

For example, having forecast the market it is often helpful to determine the volume of sales the company may expect to achieve if it adds no facilities, and continues to pursue its present selling, advertising, product line, and other commercial policies and practices. This might be regarded as a minimum objective, attainable at minimum cost. Generally such an objective would imply that the company is going to become a less and less important factor in the market, particularly if demand for the product is expanding.

The second tentative objective might be set on the basis that money is no problem. Such an objective would imply the maximum feasible penetration into the market. Generally it would involve an expenditure of funds which would appear to management to be extremely large, in many cases completely beyond the ability of the company to finance.

These hypothetical extreme objectives can be regarded as bracketing the possibilities, and defining the area within which feasible and constructive objectives may be set. A third tentative objective might be set on the basis of the maximum expenditure which top management considers to be within the realm of possibility. This serves to narrow somewhat the range of objectives to be considered. From this, management can move to an

objective which appears to be feasible, both financially and competitively, and which offers acceptable profit possibilities. At this point detailed planning, to achieve the objective set, can begin.

Specific Marketing Plans. We have seen that the first use of facts in planning is to develop forecasts which can be used in establishing objectives against which plans can be made. The second use of facts is to develop a specific marketing plan. Such facts include, of course, information about the market for the product, about the types of consumers using it and their buying habits, about the channels through which it is distributed, about competitive producers of the product, and about other commodities directly or indirectly competitive with the product.

The Measure of Progress. The third and final use of facts, and one which is more often neglected than we might suppose, is in measuring progress toward the objective. It is only by such measurement of performance that plans can be evaluated, their execution controlled and appraised and, if necessary, corrective measures taken to improve both the plans and the way they are carried out. In my opinion planning, no matter how well done, is virtually worthless without continuous measurement of performance and, if required, prompt remedial action.

To be effective, marketing planning must reach all the way to the ultimate consumer, whether or not the company sells to him directly. If it does not, the product may stop at some point in the pipe line and so clog it that further sales are restricted. This is particularly true in the case of companies selling through distributors, as well as companies selling materials for fabrication into finished products.

Planning as a Corporate Function

Marketing planning must also include every marketing tool in its integrated scheme. It is not enough to make separate plans for personal selling, for advertising, for sales promotion, for custo-

mer service, for pricing, for market research, for product development, and for the recruitment, training, and development of personnel to direct and carry out each of these functions. Those organizational units in the company responsible for each of these functions must all play a part in developing the plan, in executing it, and in evaluating the results achieved. Without such a team approach, we have not a marketing plan, but an unrelated series of departmental plans.

One other aspect of marketing planning which is often left out of consideration is its relationship to all other phases of corporate planning, particularly those involving facilities, raw materials and finance. This is by no means a relationship which runs in one direction only. All these types of planning must be carried on concurrently and in an interrelated manner. It is a temptation to state that marketing planning comes first, and in a way that is true. The starting point must be a market forecast and a marketing plan. These must come before there can be a determination of what facilities will be required and before the cost of those facilities can be estimated and the profit calculated. It is the marketing situation which often dictates not only the size and location of producing facilities, but also the sort of product which they must be equipped to turn out. The quantity and type of raw materials to be supplied are likewise governed by marketing planning. In the same way, planning by the financial end of the business for funds to be provided, and estimates of profits to be available, both as a direct source of capital funds and as a fundamental background for outside financing, start with market possibilities, sales objectives and marketing plans.

The other side of this coin is equally important, however. In almost every instance, marketing planning must be limited by financial and technical realities. The size of the objective and the aggressiveness of the marketing plan must often be tailored to the availability of funds and of raw materials. On a short-range basis, marketing plans must at times be

limited by ability to produce; on a longer-range basis by the funds we have (or can obtain on satisfactory terms) for expanding producing capacity. Marketing planning must, therefore, be a correlated part of corporate planning.

All these things taken together constitute what it has become fashionable to call "integrated marketing", or the "marketing concept". As so often happens, however, there is nothing new about it but the name and, perhaps, its growing general acceptance. Without applying any name to it but "marketing", leading professors have been talking about this approach in the classroom and in their writings for at least twenty-five years to my personal knowledge. In practice, certain sales executives in American industry have been applying it for at least fifteen years, also to my personal knowledge. They have called it by many names: "commercial planning", "sales coordination", "merchandising", and others.

As for measuring the results of planning, it is not difficult to determine at any point how far the business has moved toward its objective, and to see whether it is on schedule in its effort to reach the goal. These things should, of course, be done. It is important, however, to go far beyond this and attempt to evaluate the extent to which each marketing function

comprehended in the plan is making its full contribution to the result. This is not easy and in many cases may well be impossible of complete attainment. Nevertheless, it must be undertaken if weaknesses in plans or their execution are to be discovered and corrected before important objectives are threatened.

A Dynamic Function. In closing, perhaps I may be forgiven if I inject a bit of philosophy into a subject as practical as planning. The importance of planning from the point of view of the individual business enterprise is apparent to all in a world which is changing in so many ways with a speed that is almost explosive as compared with the rate of past decades. Despite this breakneck pace, thorough marketing planning business has an important part in shaping its own destiny. No longer is it completely at the mercy of changing technology, changing consumer attitudes, and changing business tides. By the skill and foresight with which it plans, a business can, to a significant degree, influence its own environment, and by joining the growing number of companies, both large and small, which are planning more and more and better and better, it can help to improve the environment of all American business.

NO SHOES IN VIRGINIA?

The country's leather-making industry originated in 1623, when Experience Miller set up his shop in the Plymouth Colony, according to the Leather Industries of America. This statement leads one to speculate on the footwear of the Virginians, situated at Jamestown since 1607. Were they going barefoot all this time? Or did they import their boots and shoes, as well as buff jerkins, saddles, scabbards and ale mugs from England? Whoever the original entrepreneur, whether New England Dissenter, loyal Virginian or even a Spaniard in St. Augustine, Florida, no doubt he would have been dumfounded to think he was the father of an industry that would be producing 600,000,000 pairs of shoes a year by 1957.

PROFITS, PRODUCTIVITY AND PERSONNEL ADMINISTRATION—A LOOK AT THE FUTURE

By J. W. ORAM*

The nature and outcome of management's major decisions having to do with profits and productivity depend greatly on labor relations. The author discusses grounds for optimism in the future of industry during the present technological revolution.

Looking back at the predictions that economists have made in the past, we are pretty much compelled to the conclusion that hindsight is much more accurate than foresight. In the late 1920's they said we were depression-proof. Subsequent events proved they were overly optimistic. During the '30's, they claimed our economy, having expanded to its maximum, had become static. It would be up to the Government, they assured us, to take up the slack on a permanent basis. Again they were proved wrong.

Today we are advised that controls built into our economy will prevent a recurrence of the depression of the '30's. There may be "rolling readjustments sideways", "high plateaus of prosperity where we can rest awhile to prepare for our next economic thrust upward", "healthy economic readjustments", and the like. But barring such unpleasant things as a visit of a guided missile from Russia, even the pessimists seem to be looking at our economic future with sunny confidence.

Reasons for Optimism

We can only hope they are right. For the planning that business is doing so far as personnel administration is concerned is predicated on the belief that an expanding economy will continue to encourage greater productivity and assure reasonable profits. There are good reasons

for this public aplomb. The technological progress we have already accomplished since World War II almost amounts to an industrial revolution. Vast new industries like television, plastics and atomic energy, giving employment to millions, have grown up in the space of a single decade. Established industries have developed new products and found better and cheaper ways of making old ones. The population is increasing tremendously, thus providing an ever-growing market for goods. High wages supply Americans with the money to buy, and the five-day week plus more holidays and longer vacations are giving them plenty of leisure in which to do it. On top of that the Government is spending billions each year both at home and abroad. All these facts add up to a solid reason for putting a bull market bet on what's to come.

There's Many a Slip

But before you grow old along with me to see if the best is yet to be, may I suggest that prior to taking our promising tomorrows like so many tranquilizing pills, it might be a good idea to examine the other side of the coin. We have problems too. And since productivity and profits depend primarily on people, we are faced with a severe challenge in personnel administration. For it's the job of the personnel director to see that his management has the selection techniques, the training programs and the labor relations flexibility that produce a competitively efficient utilization of the work force. This means we cannot be deceived

*Mr. Oram is Vice President for Personnel, the Pennsylvania Railroad, Philadelphia, Pennsylvania. This article is based on a talk before the Fourth Annual Personnel Institute, Kellogg Center, Michigan State University, October 16, 1957.

by glib economic generalizations which, in effect, promise something for nothing. For example, it is both easy and comforting to say that increased productivity permits higher wages and lower prices. It's true too. But the hard fact remains, according to a recent report of the Department of Labor, that wages have jumped 33% since 1948. During this same period, productivity has risen only 26%. The result: prices have moved up sharply. The cost-of-living is beginning to hurt. The question of inflation is of such concern to Washington that President Eisenhower has already advised labor and management to "exercise restraint" in further price-wage increases.

A Modest Proposal

Despite the President's mild warning, it does not appear from Labor's announced intentions that its leaders seriously propose to pursue a course of "tempered moderation." It is true that the U.A.W. has informed the automobile companies that if they cut present prices of their product by \$100, this adjustment will be reflected in the 1958 demands of their union. From the point of view of labor relations strategy, this may have seemed a clever maneuver. But that is about all it was. The automobile companies are not yet in receipt of the U.A.W.'s demands. And naturally they would not buy that kind of a pig in next year's poke. It is obvious that no management would trade away a hundred dollar price cut on its goods for a vague promise; particularly if by so doing it would, in effect, be giving a union the right to bargain about its future prices. So it is not surprising that the major automobile companies were emphatic in their refusal to be drawn in by this gambit.

It is not my purpose here to discuss the contemporary labor-management relationship from the point of view of collective bargaining. However, if I am to suggest what we can reasonably expect the future to hold for business in the way of profits, productivity and per-

sonnel administration, I must give deep consideration to this factor. It is extremely important. Perhaps it holds the key.

Role of Labor Liberals

The ideas of the so-called liberal labor leaders on the role of organized labor in our society have had great influence on industrial relations trends since 1946. They have introduced the escalator clause, the productivity factor, and the Supplemental Unemployment Plan to collective bargaining agreements. It can also be said that their activities to promote and liberalize such items as insurance programs, pension plans, longer vacations and more holidays have been significant—almost as much so as the ingenuity of American industry that has made them possible.

The unsavory revelations of the McClellan Committee about a few labor men will have no effect on these liberal labor leaders who are still on the move in the direction of greater benefits for the working man. Their ideas will be most significant in shaping the future of the labor movement. And the future actions of organized labor will have a definite impact on such matters as profits, productivity and personnel.

May I give you a specific example. We don't know at this time the precise contents of the package of bargaining demands that the U.A.W. will open next spring. But we do know from what Walter Reuther has said that his union will ask for a "sizable" wage increase. We also know that it will endeavor to secure "greater liberalization" in such matters as pensions and insurance. But, most important, we have heard for three years now that the number one target of 1958 negotiations will be the four-day week. This does not mean the objective will be accomplished. A great many words are laid end to end in contract negotiations before a demand becomes an actuality. But, if the U.A.W. is partially successful in getting what it wants, even partial success would have a tremendous effect on our economy.

What would be the economic results of a shorter week? Many groups are studying the problem. However, we can forecast some of the results with a degree of certainty.

1. A cutback of 12% in hours (reducing the 40-hour week to 35) would amount to about a 14% boost in wages. That's substantial in anybody's book.

2. Overtime and overtime costs would rise sharply.

3. Shift systems would have to be revised.

4. Shorter hours, despite the U.A.W.'s somewhat curious arguments to the contrary, would not be balanced by increased productivity.

5. Labor shortages, already acute in skilled categories, would become worse. This would constitute another pressure for increased wages.

Increasing Productivity

These five considerations alone point up the tremendous problems that a company would encounter in the operation of its business. From the point of view of labor relations, contracts would have to be extremely flexible to permit sweeping changes in methods and production techniques. For the only way a cutback in working hours could be absorbed without further inflation would be through a corresponding rise in productivity.

To bring about such an accomplishment would require a combined and integrated effort from all management. It is plain that, to raise productivity, it would be necessary for engineering and methods study to devise new procedures, develop new machinery. After this was done it would be up to personnel to negotiate contracts that would permit the introduction of the methods and machinery that would make greater productivity possible.

Even if a management were successful in securing exactly the kind of contract it desired, its job would scarcely be begun. Think of the training programs that would be needed. Already there is a shortage of skilled labor. The shorter

week would intensify this shortage. Unskilled and semi-skilled workmen would be the only source from which workmen could be recruited to fill the jobs. They would have to be upgraded through training. At the same time, skilled employees would have to be taught new ways to do their old jobs to secure the greatest operating flexibility. In addition, positions would have to be re-studied, and, when necessary, reclassified. Wage ranges would call for renegotiation. Production departments would have to revise work schedules. These are, of course, just a few of the things that would have to be accomplished. It would be a monumental task even under ideal circumstances. And, I can assure you, the circumstances will not be ideal.

A Gentle Revolution

We are all realistic enough to know that the best union-management contract is a compromise. Possibly, Labor might be willing to relinquish some of the traditional rights it has won in order to accomplish greater gains. Perhaps it would be willing to adjust its philosophy on others. I refer to such matters as seniority, transfer, promotion, job evaluation, job classification, incentives and the like. However, a union is essentially a political organization. Obviously, it will make no concessions that would affect a considerable portion of its membership or cause violent and quick changes in the nature of the work force. Therefore, what the labor liberals are really seeking is, at best, a gentle revolution in industrial methods and practices that will secure far-reaching social changes immediately and, simultaneously, protect all employees from even temporary inconvenience during the transition.

It simply cannot be done. What is much more likely to happen is that wages will continue to outstrip productivity, inflation will increase, and the added benefits negotiated at bargaining tables will be bought by dollars that pay for less and less in the way of material things. For one truth is inescapable: the purchasing power of the dollar is

directly related to the amount of goods available. If there are more dollars than goods, it is as inevitable as night follows day that the consequence is inflation. This is true whether the economic system of a country is socialist, communist, or capitalistic. Governmental measures may conceal or delay the results of the policies of fiscal idealists. But the effect will be temporary. While it is true that the "one-day" week, or even the "no day" week, might be won if employees are willing to be paid off in Confederate money, it is also true that the dollars worth pocket-room must be acquired through productive labor.

We are concerned here with profits and productivity in the light of what the future holds in store for us, and what personnel administration can do about it. The amount of profit that we make depends on our rate of productivity which in turn is based to a large degree on the efficiency of personnel administration. In short, these factors add up to one word—management. We must recognize this in our planning. The compromises that we make must be intelligent compromises, not improvisations that amount to evasions. Our growth potential of 25 years hence will be affected by what we do today. Therefore, I suggest that, in the broad sense, our skill as personnel administrators and personnel leaders will determine our future progress.

Challenge to Management

Management has a challenge to meet which will require an integrated effort. And this effort must come primarily in the field of personnel, but not just from personnel men. Everyone must do his own personnel job, for every activity of management is related to personnel. Fundamentally, then, it is the responsibility of a company's personnel department to make certain that every supervisor and executive in the organization is fully aware of his employee relations responsibilities and knows how to discharge them properly. A competitive, well-informed work force cannot be built

without capable leadership from management. Therefore, any management that is planning its long-term future in terms of growth and development must direct its main effort toward building an organization that can change positively with changing times. To do this may I suggest, in charting management's course toward tomorrow, that the following objectives, and, of course, the programs needed to reach those objectives, be carefully considered:

1. *Management Development:* The operation of private enterprise is a public responsibility. The men to whom the direction of business is entrusted must have a deep understanding of the sociopolitical and economic climate in which their industries function. They must be prepared to provide a leadership that will influence public opinion positively and that means taking the initiative in advancing the interests of what might be called creative capitalism.

The business leader cannot merely react to the actions of Government and Labor without remaining in a permanent posture of defense. Industry in this country has not grown to its present size and influence by thinking defensively about its own operations. It has been boldly imaginative. Today its leaders must apply, to a broader field, the same talent and qualities that made them so successful in a narrower one. In other words, the ultimate goal of management development should be to produce men who have the talent and skill to conduct business on sound business principles and, at the same time, provide the public leadership that will secure understanding and popular support for their decisions. The intermeshed relationship of Business, Government and Labor demands that the leaders of industry have a firm grasp of the functions and objectives of Government and Labor as they apply to business in particular, and as they relate to the country as a whole. They must base their activities on this knowledge, and do so with a confident "feeling" for public relations.

2. Middle Management and Supervisory Development: A company's program to develop its middle management and supervisory executives must be designed to give these people a sound grounding in the principles and techniques of their specialties. It must also provide them with a practical knowledge of the work of the various departments of the organization, and explain how they relate to one another. I refer to the co-ordination of such matters as manufacturing, sales, finance and personnel.

These are basic objectives. But a meaningful middle management and supervisory development program must do more than that. It must operate in a company atmosphere that encourages the growth of the individual and prepares him to take his place tomorrow as a guiding officer of the company.

3. Employee Relations: The effective employee relations program is aimed at securing maximum efficiency of the work force. This must be done by demonstrating to the man in the shop and the clerk in the office that their financial well-being, and their future, are best protected by identifying their interests with those of the company. They must realize that they advance their individual ambitions by devoting their efforts to helping their management achieve its goals. They must understand that loyalty to their union and loyalty to their company are not inconsistent. The devices that are used to secure this objective such as communications, employee training, or human relations in any of its phases need not be explored here in detail. Their purpose may be simply stated: It is to develop among employees an understanding of company problems, an agreement with company objectives, a confidence in company leadership, and a strong desire to help the company grow and prosper. This feeling should be both selfless and selfish.

In my opinion the major decisions of management in so far as profits and productivity are concerned will be taken in the field of labor relations. When

I say labor relations, bear in mind that I include production as it relates to the man and his machine. These decisions are influenced by important factors above and beyond the mere two-way relationship of a single company and a single union. Politics, group pressures, community interests will have significant effect on these decisions. Therefore, it is extremely important for a company to have a clear concept of its industrial relations philosophy, and make certain that this understanding is shared by its employees and by the public. Both employees and the public must comprehend the reasonableness and fairness of management's actions. In the framework of this philosophy there must be hard and fast principles of operation that must be followed.

Check List for Planning

1. The labor contracts that a company signs must permit it to remain competitive. This means that management must have a wide knowledge of the dollar clauses both within and without its particular industry. By the dollar clauses I refer to such items as wages and fringe benefits.

2. Management must realize that production time is more valuable than money. A clause that restricts a company's utilization of its work force may be much more expensive in the long run than a wage increase or a costly fringe benefit program. Therefore the contracts that we negotiate should be primarily aimed at securing full employee efficiency and flexibility of operation. Restrictive clauses that do not appear expensive on their face but which prevent management from utilizing its work force effectively must be avoided.

3. Management must know precisely the cost of labor as it applies to every operation—direct or indirect. If your price tag on labor costs is accurate, you know to the cent what your union contract costs, and you can calculate the value of changes that eliminate or minimize restrictions on your use of your work force.

4. Management must make certain that any technological or methods improvements that are planned are negotiated well in advance of their installation. Planning between engineering and labor relations must be coordinated. New ideas for money saving equipment or methods cannot be acted upon unilaterally. The pathway to change must be paved well in advance.

5. Management must not react defensively to labor's proposals no matter how radical they may appear. After all, there is no reason why a company should bargain exclusively on a union's demands. If a company analyzes its contract, determines where revisions or modifications are needed to produce greater efficiency, and then goes out and asks for them, it is practicing genuine collective bargaining. The agreement that permits flexibility of operation and maximum use of the time of employes may be a bargain regardless of its initial purchase price.

* * *

Earlier I pointed out that economists have often been mistaken in their pre-

dictions of the future. Today they are optimistic, and so am I. I hope we are right, but it is obvious that there is no reason to assume that we can continue to expand our economy at the rate of 10% per year. There will be pauses along the way. It is the decisions we make during these pauses that will determine our progress. The company that is guided by intelligently bold and far-seeing officers, that is operated by executives and supervisors who know their business and their company's business, that is manned by productive, cost-conscious and service-conscious employees, has very little to worry about so far as productivity and profits are concerned. I think, on the whole, the industry of our country is in such hands. Today we are in a far-reaching technological revolution which we would be sensible to assimilate as we go along. It may be absolutely true that now is the time to kick over the apple carts of the status quo. But let's make certain we have some place to put the apples before we kick.

MEDICAL NEEDS AS SEEN BY LAYMEN AND DOCTORS

Results of the Michigan State Medical Society's poll of opinion on prepaid medical care coverage in this state, as presented to the Society's House of Delegates in Grand Rapids in September, formed a body of facts that are being incorporated into recommendations to the directors of medical insurances plans. 81% of our population is covered by some form of health insurance, and approves of it to the extent of wanting more, even at greater cost. The added benefit most frequently desired, according to the poll, is hospital diagnostic service. Oddly enough, most people proved unaware of the full benefits they already enjoy, such as emergency first aid in the hospital, and certain surgical procedures in the office. On the other hand nearly one half who answered believed incorrectly their contracts covered many items such as out-patient X-rays.

The doctors queried had as their chief complaint against Blue Shield its inadequacy in keeping pace with their own rising expenses. They favored a widening of coverage, as did laymen, but were more disposed than the general public toward a deductible or co-insurance feature.

The Society made certain recommendations for change in Blue Shield benefits to include the above features as well as an increased income limit clause covering major medical costs for families of up to \$7,500 income.

YOUR COLLEAGUE—THE BRAZILIAN BUSINESS ADMINISTRATOR

By STANLEY E. BRYAN*

As American and Brazilian businessmen are coming into constantly closer contact, readers may be curious about the personal and professional characteristics of their opposite numbers in the southern hemisphere. Here is a survey of a composite Brazilian business personality.

Two hundred or more U. S. companies have set up shop in Brazil in the last five years.¹ Total private investment in U. S. owned subsidiaries is estimated to be between \$1.2 to \$1.5 billion, and more than 4,000 Americans live in Sao Paulo alone.² Suppose you were an executive who suddenly found yourself appointed to carry out your company's business objectives in Brazil. What would your Brazilian colleagues and subordinates be like? Knowledge about them would be important, for you would have to achieve your purposes by getting things done through those people.³

I am going to attempt a composite portrait of a Brazilian business administrator. Perhaps *portrait* is too precise a term for the impressions I am going to record, using broad strokes, a large brush and little attention to details. The viewer will be alerted to the generalization, "no generalization is correct, including this one." Social psychologists warn us of the dangers inherent in general descriptions of societies and attempts to characterize national characters.⁴ Sociologists like Margaret Mead have pointed out, however, that if carefully done

these studies are worthwhile and that traits of a wider group can be comprehended by characterizing a smaller group.⁵ My portrait consists of the impressions I have obtained during eighteen months in Brazil, a period that has afforded daily contact with a fairly representative sample of Brazilians.

A generalized picture can help clarify statements about business administrators as a group, not just the South American variety. The fact is that in pointing up the characteristics of a particular class of people in a foreign society we become acutely aware of ourselves, either in our contrasts or our similarities. The Brazilian administrator has the same general problems of planning, organizing, motivating and controlling business operations that his American counterpart (or colleague) has. The Brazilian has a different environment and a different temperament. Incidentally, nowhere in the world have I met a finer group of people with whom to live and associate than the Brazilian administrators I am here trying to portray in a composite picture.

What Is An American? What is a Brazilian?

In mentioning an American or a Brazilian in this presentation I mean *only* business administrators. I am not discussing Brazil's great statesmen, her cultural leaders, her scientists, her gracious women, or even her entrepreneurs (except insofar as they are also business administrators).

*Dr. Bryan is Professor of Management at MSU. He is one of eight MSU professors participating in the development of a school of business administration in Brazil under provisions of a Point IV contract with the U. S. Government.

1. "Setting Up Shop Inside Brazil", *Business Week*, Nov. 24, 1956, p. 165.

2. "Brazil's City of Go-Getters", *Business Week*, July 13, 1957, p. 58.

3. By Brazilian law two-thirds of the employees of a firm must be Brazilian and two-thirds of the payroll of a firm operating in Brazil must be paid to Brazilians.

4. A. R. Lindesmith and A. L. Straus, *Social Psychology* (New York: The Dryden Press, 1956), p. 540. There are problems of proper sampling, regional differences, social strata, etc.

5. M. Mead, in A. L. Kroeber (ed.), *Anthropology Today* (Chicago: University of Chicago Press, 1954), "National Character", pp. 642-667.

Let us look at the American first, trying to see him through Brazilian eyes. In my travels through Brazil I have found that Brazilians like the American, but typify him as a person deficient in real culture.⁶ Americans are characterized as being extremely materialistic, striving always for efficiency, and never taking time out from their professional pursuits in order to enjoy life. Many Brazilians like to work for American-owned firms and American executives, but they would probably agree with the British correspondent that Americans "seem to have been injected with some magic stimulant which prompts them to go on and on—improving, experimenting, maneuvering, and increasing—regardless of the demands this makes upon health, private life, or anything else."⁷

Americans might take the opposite view of Brazilians and might say that in general Brazilians place too much emphasis upon classical culture in their living, are relatively inefficient by American standards, and, although they put in long hours on the job, also take much time away from the job for purely personal reasons (for example, there are cases where an orderly schedule has been at the mercy of spontaneous little celebrations).

The deficiencies of either broad sketch are readily apparent. Can we characterize "the American", with whom we are presumably familiar? If this is not easy, how much harder to characterize the complex Brazilian, a stranger to us, and a mixture of many nationalities as well. He is the product of an extremely intricate mingling of races and cultures. For example, although the predominant ethnic origins of Brazilians are Portuguese, people are always surprised at the percentages of the population which have Germanic and Italian backgrounds

—particularly in southern Brazil. Brazil has remained one of the few nations in the modern world where freedom to immigrate, for persons who would be desirable citizens, is relatively unfettered by controls. Brazil offers the ready sanctuary to those fleeing the trouble spots of the world that was once afforded by the United States. The result has been a recent influx of persons desiring to find a place they can pursue a free and fruitful normal life. Second-generation Brazilians abound. One hears the native Portuguese language spoken with all types of accent, from oriental to northern European, and it is common to hear the languages of other countries spoken in the streets of this tolerant country. Thus our Brazilian is even more of an obvious composite than his American counterpart.

Alike, But Different. One of the things that is deceptive about the Brazilian, particularly in Chicago-sized, Chicago-like Sao Paulo, is that he appears to be so much like an American. His office, apparel, transportation, housing, and other outward characteristics seem to be similar (although it is not unusual for him to sport a moustache and to take frequent coffee-breaks for a demitasse, a very black, very sweet *cafezinho*). This familiar habit is particularly understandable in a land which supplied in 1956 almost one-half of the \$1.3 billion U. S. import of coffee.

Because of the outward similarity between Americans and Brazilians, with like modes of living and democratic ideals, an American can easily be led to the erroneous first impression that the Brazilian's education, background, experience, outlook and motivations are identical with his own. The differences are actually profound. His adaptability to the American's ways is likely to mask these differences, and his courtesy, tact and intelligence prevent him from overt demonstrations of his divergent character.

The intelligence of the Brazilian is quickly proved in his approach to business problems. We professors here from

6. This is a capsule characterization similar to the oversimplified version of the American business man presented by Russell Kirk in "The Inhumane Businessman", *Fortune*, May, 1957.

7. Reported in the Latin American Edition of *Time*, August 5, 1957, p. 61.

Michigan State meet top Brazilian business administrators in our Advanced Management classes. These men must be compared favorably, in their ability to handle business situations, with their counterparts in similar classes in the United States. Yet the Brazilian is different in many small ways which, when added together, give him the characteristics which make him a Brazilian and distinguish him from an American.

The Making of a Brazilian

The Brazilian administrator is the product of a selective process, either through education or through family connections. The illiterate and uneducated of Brazil, of course, have practically no chance of achieving administrative positions. Brazil does have its versions of the American Horatio Alger.⁸ But it doesn't have the Horatio Alger tradition which the American business community reveres. The Brazilian administrator is normally the product of a private school system which is relatively expensive and thus closed to many of his countrymen. His higher education, usually classical in nature, might be acquired in one of the great state universities, if he has the educational background to pass the entrance examinations. A college degree seems to carry a greater distinction in Brazil than in the United States, apparently conferring upon its possessor certain social privileges without counterpart in American society. It is natural that many possessors of college degrees—even more so than in the United States—consider their degree as their lifetime passport to a good administrative position. The advanced education of our hypothetical business administrator may have been in such fields as medicine, law, engineering, or economics, which have long been the

accepted cultural professions in Brazil. Nepotism, too, plays an important part in the selection process at the present time.

Humane Qualities. The Brazilian, by nature, and by his cultural education, possesses a quality of humaneness. He normally avoids encounters which would be disagreeable or distasteful.⁹ He has a wonderful sense of humor. His humaneness and humor are likely to have a slight dash of cynicism and a touch of melancholy.¹⁰

Optimism. Brazilians (like Americans) have faith in their nation's industrial progress. The great Brazilian industries, busy banks and offices, crowded thoroughfares, and towering skylines of cities like Sao Paulo attest to the progress of Brazil. Brazilians are trying to accomplish in a few short years the kind of progress it took Americans a century or more to achieve. Thus Brazilians are optimistic — looking forward and not back.

Independence. Brazil has its community organizations like the Rotary and Lions clubs: the meetings could almost be Rotary meetings in Grand Rapids or Lansing, except for the Portuguese language. But there is a difference, which seems to be in the independent natures of the members. What seems lacking is that familiar American community spirit. The optimism of the Brazilian is for his nation and for his own future. The well-known "chamber of commerce" optimism for "our home town" isn't as prevalent in Brazil. There aren't service organizations on all sides trying to get sewers in, streets paved, the town cleaned

8. Matarazzo is a household word in Brazil, particularly relating to foods. Francisco Matarazzo, an Italian immigrant, started making lard in 1881. Today the Matarazzo family operates an industrial empire. Another was established by the founder of the Klabin enterprises, who started out as a rag and bone scrap dealer. See "Food Baron Lays Base For Chemical Empire", *Business Week*, May 11, 1957, p. 115.

9. This characteristic is also found in many Brazilian maids. They often quit their employment just by leaving without saying anything, without trying to collect the wages due them, rather than to face the possible disagreeable encounter of an interview with their employer.

10. The quality of melancholy was also noted by Stefan Zweig, in his book, *Brazil, Land of the Future* (New York: the Viking Press, 1943); he writes: "A certain softness, a mild melancholy, create here a new and very personal contrast to the dynamism and activity of the North American". (p. 9).

up, the ball park lighted, etc., etc. The Brazilian administrator is not forever joining community organizations and working on civic projects.¹¹ He seems to prefer the independence of improving his own home and grounds and protecting them with the walls one sees everywhere one goes in Brazil.

The Similarities and the Differences

Like the American, the Brazilian lives in a country blessed with great natural wealth. He and the entrepreneurs of his country have exploited their opportunities, and great industries and financial wealth have been the results. Yet in my mind one of the striking differences between the Brazilian and the American is that up to the present few Brazilians seem to have accepted the idea that *business administration can be a profession*.

The Brazilian still looks upon a business primarily as a money-making machine. (Yet paradoxically, it is the American who is considered materialistic in business!) The Brazilian entrepreneur-owner wants the machine to produce a quick profit so he can turn his attention to the more important aspects of living. And the Brazilian administrators whom he selects necessarily reflect this attitude. They work to live, earning their salaries by their ability to keep the machine running effectively, and only an exceptional few "live to work". In general, Brazilians do not possess that magic stimulant, attributed to the Americans by the British correspondent above, that makes business administration a way of life.

In Brazil the presidents and vice-presidents are typically owners or large stock-

holders in the business. In very few businesses can the person selecting administration as a career aspire to being president or vice president, (as the professional business administrator can in the United States). I am, of course, discussing here the characteristics of the Brazilian administrator rather than the Brazilian entrepreneur. Often, however, the roles are combined in one person. To the extent to which the administrator reflects the attitudes of the entrepreneur-owner the following attitudes toward risk-taking seem to characterize the Brazilian. He is known to take business risks which would bother most Americans. He has the courage to make quick decisions, sometimes on the basis of few facts.¹²

Brazil is the land of sales opportunity as many American firms are recently discovering. Brazilians want the products of industry. Almost anything will sell, and sell at prices which are at present much higher than for similar products in the United States. The current concern of big business is not so much for sales as for production and finance (although continued inflation and government fiscalization are pervasive problems). The Brazilian at present tends to take the simple and direct way to a production profit. He calculates his cost and then adds a large profit margin to arrive at his selling price. Thus, while taking risks, the Brazilian is also conservative.

Conservatism. The conservatism of the Brazilian might be characterized by a constant reliance upon the magic of a set mark-up figure to insure his profit, rather than to vary his prices and margins in order to increase his profit through larger volume sales. As some American druggists mark every product up 33 1/3%, the Brazilian might have a set standard mark-up of 100%, or 200%, or higher.

11. Let's consider the interesting city of Americana, population about 13,000, located approximately 80 miles inland from Sao Paulo. It was founded just after our Civil War by Southerners who left the United States in protest over the Union victory. Today there are no Americans here, only Brazilians with names like Luiz Felipe Brown or Roberto Carlos Jones. A Lions Club sign welcomes the visitor. Streets are paved throughout the city. There are open lawns and some "southern mansions" with colonnaded front porches. The American type of community spirit seems to have survived in Americana.

12. Many of the techniques of modern business administration, such as market research, internal production costing techniques, break-even analyses, etc. are relatively new to Brazil. There is also a tendency for many owners or entrepreneurs to put their investments into the form of buildings or things, rather than into the circulating capital necessary in a service or production enterprise.

One Brazilian manufacturer was approached with the suggestion that he increase his production, thus lowering his unit costs, and sell his product at a lower price to tap the greater demand. His response was instantaneous: if demand was that good he'd raise his present prices and make the larger profit by selling less at higher prices, rather than selling more at lower prices.

It is not unusual to find that some Brazilians think of percentage of return on investment ranging up to several hundred percent as "about normal". They often do not know the risk they take.

The Risks He Takes. As for risks, every American visitor finds Brazilian driving fascinating. The analogy with driving emphasizes the national mixture of conservatism and daring. It is difficult to convey the Brazilian's driving plan: there is seemingly no margin of safety left for contingencies. The operator appears to ignore the possibilities of faulty brakes and wrong moves by other drivers, and takes enormous risks.* Yet in the outward upkeep of his car he is meticulous. It is kept spotless. He tips little boys to watch it and protect it from theft or petty damage. While driving he risks it in a continual duel with other drivers. When it is standing still he looks upon it as a large and important investment, as indeed it is.¹³

Other differences in attitude are found in the Brazilian's use of *jeito*, his application of authority, his non-disclosure in financial statements, and the great influence of family upon business organizations.

Use of Jeito and Despachantes. Three Portuguese Brazilian words are useful in describing another characteristic of the Brazilian. There is much social and business legislation in Brazil, for, as compared with the United States, there is more dependence upon the innumerable

codes and administrative decrees. Some Brazilians (just like some Americans) believe that the study of law is about the best preparation one could have for business. Although there is considerable latitude and freedom in business enterprise in Brazil there is also the need to rely heavily upon law to give guidance as to what can and cannot be done legally. There is a great amount of *fiscalization*.¹⁴

The American speaks of U. S. Government "red-tape" and bureaucracy. The Brazilian speaks of *jeito* or *knack* in dealing with Government *fiscalization*. In Brazil there is available a functionary agent called a *despachante*, for which we do not have an exact counterpart. The *despachante* is quite distinct from the lawyer, but performs some of the functions that an American lawyer might perform.

The Brazilian acquires the characteristics of a lawyer much more than his American counterpart. He makes normal use of *jeito* and *despachantes* in helping him thread his way through Government *fiscalization*.¹⁵ These are all accepted as part of his environment and as permanent social factors, influencing the Brazilian personality just like his heritage of Latin temperament and the Napoleonic Code.¹⁶

Authority and Tolerance. Though many American administrators are authoritarian, many more are democratic in handling their subordinates. Brazilians however tend toward the use of *authority* in business. The Brazilian expects to make decisions, give orders, and have the orders carried out. The subordinate expects to receive orders and in turn to issue orders to his own subordinates.

14. Licensing, taxing, checking, control.

15. An interesting presentation of this phase of Brazilian life is that in Karl Loewenstein, *Brazil Under Vargas* (New York: The Macmillan Co., 1944). Other more recent comments are found in *Brazil, An Expanding Economy*, written by George Wythe, R. A. Wight, and H. M. Midkiff (New York: The Twentieth Century Fund, 1949).

16. For another analysis of "the Latin American" there is a study presented in *Cultural Patterns and Technical Change*, Margaret Mead, ed., (Mentor Book reprint of UNESCO Publication, N. Y., 1955).

13. At this writing a current model Chevrolet Bel Air has a U. S. price equivalent of approximately \$15,000.00. In Brazilian money this is approximately one million cruzeiros.

* (Curious how many Brazilian drivers we seem to have in Michigan—Ed.)

Explanations are often deemed unnecessary. But for Brazilian subordinates to answer "yes" does not necessarily mean "I understand and agree", but rather, "You are the boss, so I agree".

Brazilian administrators make plans, arrive at decisions, state policy, prepare regulations and issue orders. Much more than their American counterparts, they seem to assume that once these things are done the results they desire will automatically come about. With no explanations or idea of the relative importance of certain aspects of an assignment, a subordinate is likely to delay his performance or neglect certain aspects of the job. Schedules for accomplishment are frequently not adhered to. In terms of American standards the control function is often neglected.¹⁷ Brazilians are tolerant people. They do not regulate their lives as much by the clock as Americans and have fewer nervous breakdowns and heart attacks than Americans because of it. The *amanha* (tomorrow) pattern provides a rationalization that jobs will be carried out—later.

Non-disclosure. Many Brazilians prefer not to disclose business information or technical knowledge to others. Characteristically, knowledge and training are not adequately passed on to subordinates. Some observers attribute this commonly observed characteristic of non-disclosure to fear or insecurity on the part of the boss who wants to protect the security of his position. This does not seem to me to be a valid reason in light of Brazil's labor laws which furnish considerable protection and security for all employees.¹⁸ Perhaps a more realistic explanation lies within the reserved nature of the Brazilian's personality.

Brazilian law requires that financial statements of businesses be published in the local newspapers each year. Ameri-

cans, used to more revealing financial statements, find the published figures obscure. It is difficult to detect the continuity in a sequence of published financial statements. From an American standpoint, at least, this type of accounting seems aimed at the idea of "conceal, rather than reveal."

Minimum Contacts with Business Associates. I have spoken about the prevalence of walls around homes in Brazil. Brazilians have told me that except in family businesses the Brazilian tends to separate his business life from his social life. In great cities like Sao Paulo the long distances and inadequate transportation facilities also tend to isolate people from one another after working hours. My observations have led me to believe that it is characteristic for the Brazilian to have little contact with his business associates, particularly his subordinates. Brazilian businesses are known to be organized along formal lines and private life seems to be separated from business life.

Perhaps it would be proper to say that the "extra-curricular" activities which seem to grow up around American business associations seem to be minimized in Brazil. Apparently the Brazilian finds most of his social life within the confines of his family group, family friends, and at his private social club.

In business, too, Brazilian wives do not play the role ascribed to American wives in shaping their husbands' careers, subtly augmenting their prestige in the social milieu surrounding American corporate life. Brazilian wives seem to be kept very much in the background.

Family Businesses and Nepotism. It is common in Brazil for many businesses to be family owned and family administered. It is natural that in such companies the top positions are reserved for members of the family, primarily sons or even sons-in-law. Business financing is still largely a family affair. Public ownership of shares is in its infancy in Brazil. Few companies have a wide distribution of shares.

17. Management has been defined as "planning, organizing, motivating, and controlling". Control includes giving directions, supervision, follow-up and corrective action.

18. Brazilian labor law protects a worker from demotion, decrease in status, decrease in salary; and grants protection from dismissal after he has been employed by a company for ten years.

It is not unusual in Brazil to hear of some young family member, with little or no business experience, but equipped instead with a cultural education, being appointed to a top executive position in a family-owned company. Some, but not all, of these young men prove themselves to be good administrators.¹⁹ Business competition is not yet severe enough to demand that the merits of experience and administrative ability be required of top administrators. Because of this fact companies and their administrators often lack the "service attitude" which one finds in American companies run by professional administrators facing stiff competition.

In the past it is noteworthy that the administrators who are not family members had no strong motivation to develop a professional top-level outlook toward management as a career. Because the top positions were reserved for the family members the non-family administrators have had to content themselves with middle-management jobs. Products themselves of a selective cultural educational process, it is natural that they would not develop a professional outlook.

Negotiation vs Business Administration

Perhaps I can summarize my broad

19. I have met some excellent young administrators who also happened to be members of family-owned industrial empires. I warn the reader that I am painting with a broad brush.

sweeping portrait of the Brazilian business administrator. *Negocios* is the commonly used word for business in Brazil. This word gives some inkling of the older idea of business: negotiation. Only recently has the concept of business administration been generally recognized. A few modern Brazilian firms have led the way, showing that *administracao de empresas* can be more successful in Brazil than just *negocios*.

Real competition is beginning to appear in Brazil. Universities are establishing colleges of business administration. Some companies, and particularly some American subsidiaries in Brazil, are opening up the possibilities for positions of president and vice-president to competent business administrators. Of course, the young college-trained administrators will have to prove their ability through years of competent administration.

What will these new business administrators of Brazil be like? If you were charged with setting up a subsidiary company in Brazil how would they perform for you as subordinates, or as a replacement for you when you retired?

The new business administrator of Brazil will have his attitudes and actions colored, or largely determined, by his professional education. But the following observation will hold: he will be *Brazilian*, proud of it; and created by his culture, temperament, and environment, he will display to some degree the characteristics I have portrayed here.

L. C. Comes To Michigan State

One of the objectives of university libraries is to make their book collections usable. This is of particular importance to the large research collection such as those found in the more prominent universities. Several methods of arranging the book collection have been used with two systems predominating, namely, the Dewey Decimal and the Library of Congress Classification scheme. In recent years the trend has been toward the Library of Congress (L.C.) system. Li-

braries have been making this change when the cost and other factors involved would not be prohibitive. Fortunately the Michigan State University Library was at a point where reclassifying from Dewey to L.C. was practical. Thus, beginning early in January 1957 all new titles and editions coming into the library were classified in L.C. At the same time a 10 year program was instituted to reclassify the existing book collection from Dewey to L.C. for the following reasons:

- (1) It is better arranged for future development.
- (2) The notation is simple.
- (3) It is more up to date.
- (4) The system is elastic.
- (5) Greater use can be made of the cards prepared by the Library of Congress and therefore it is more economical.

It is possible that the person using L.C. for the first time may upon encountering it throw up his hands in utter despair, exclaiming "What!? Another system to confuse me! I've just learned that thing called Dewey." Actually things are not that bad. Both systems arrange material by subject and once a few basic factors are learned the library user will be at home with either method.

While both Dewey and L.C. arrange material by subject, L.C. is more logically arranged. It is this factor that the business man will appreciate. Instead of wandering from subject area to subject area in order to cover the field of economics and commerce as one must do in Dewey, L.C. treats the field as a unit. In a large library using Dewey this would involve several floors, and in the small library one would tour many stack areas. In a library using Dewey one would start with the general field of economics, go on to the field of investments, labor and real estate, then by-pass the fields of law, public administration and social welfare before reaching insurance, then by-pass education before continuing into transportation, communications and foreign trade. A big jump would then be necessary to by-pass the fields of linguistics, pure sciences, and many of the applied sciences such as medicine, engineering and agriculture before reaching accounting, business methods, marketing, business management and other areas of the business field.

The Library of Congress system has eliminated this grand tour by treating economics and commerce as a unit. By using L.C. one is able to cover a large subject field without having to stumble through a number of extraneous regions.

In addition to having a better subject arrangement, L.C. is much more elastic for specific areas. This point can be well illustrated by the subject of accounting. Libraries using Dewey will place nearly all of their accounting material under one number, 657. Included in this array of literature would be such topics as general accounting, auditing, cost accounting, and accounting systems. Books by authors like Paton, Montgomery, Dohr, and Hatfield would be placed in the same location even though they deal with vastly different aspects of accounting. Under this arrangement it is obvious that a person would probably have a difficult time picking out books on a specific phase of accounting from the shelves.

Fortunately L.C. has solved this problem by giving the different fields of accounting separate numbers. Thus books dealing with auditing are together, books on cost accounting are in one place, and likewise with the other subdivisions of accounting.

In L.C. the classification or call number will start with either one or two letters, and then be followed by one to four whole numbers with an occasional decimal. The letter or letters represent the major subject area, and the numbers subdivide the topic into smaller parts. The subject number HF 5667, representing auditing, will illustrate the point:

H	Social Science
HF	Commerce
HF5000	Business
HF5600	Accounting and Bookkeeping
HF5667	Auditing

While this may seem complicated, actually it is not. Once you have had the opportunity to work with a collection classified under L.C., and perhaps have asked the library staff a few questions, you will be right at home. At this point your first thought will be probably "Why wasn't this system started earlier?"

William S. Stoddard*

*Mr. Stoddard is Divisional Librarian, Business and Public Service, MSU.

LAST MINUTE ADVICE ON INCOME TAX DEDUCTIONS

By CECIL R. UPHAM*

It is not too late to give thought to that elusive factor, the charitable contribution. Did you give a cake to a church bazaar, or a pint of blood to the Red Cross, or a block of securities to a fraternal organization this year? Which of these gifts affect your tax status?

Section 170 of the Internal Revenue Code of 1954 provides that a taxpayer "shall be allowed as a deduction any charitable contribution (as defined in subsection (c) payment of which is made within the taxable year."

Subsection (c) defines charitable contributions as a "gift to or for the use of—

- (1) A State, a Territory, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia, but only if the contribution or gift is made for exclusively public purposes.
- (2) A corporation, trust, or community chest, fund or foundation—
 - (A) created or organized in the United States or in any possession thereof, or under the law of the United States, any State or Territory, the District of Columbia, or any possession of the United States;
 - (B) organized and operated exclusively for religious, charitable, scientific, literary or educational purposes, or for the prevention of cruelty to children or animals;
 - (C) no part of the net earnings of which inures to the benefit of any private shareholder or individual; and

(D) no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation.

- (3) A post or organization of war veterans, or an auxiliary unit or society of, or trust or foundation for, any such post or organization—
 - (A) organized in the United States or any of its possessions, and
 - (B) no part of the net earnings of which inures to the benefit of any private shareholder or individual.
- (4) In the case of a contribution or gift by an individual, a domestic fraternal society, order, or association, operating under the lodge system, but only if such contribution or gift is to be used exclusively for religious, charitable, scientific, literary or educational purposes, or for the prevention of cruelty to children or animals.
- (5) A cemetery company owned and operated exclusively for the benefit of its members, or any corporation chartered solely for burial purposes as a cemetery corporation and not permitted by its charter to engage in any business not necessarily incident to that purpose, if such company or corporation is not operated for profit

*Mr. Upham is Associate Professor of Accounting, MSU.

and no "part of the net earnings of such company or corporation inures to the benefit of any private shareholder or individual."

Under (1) above deductions will be permitted for contributions to the United States, any territory or subdivision, or any state, city, or town for public purposes such as education, public works, public welfare, road construction, highway safety program, erection of a dam and other aids for public benefit. The deduction will also be allowed to any agency created by the federal, state or local government, such as a state university, a fire department, or a civil defense group.

Under (2B) deductions can be made to:

Religious organizations such as churches, temples, synagogues and other religious bodies including payments for pew rents, assessments and dues. *Charitable* organizations such as Boy Scouts of America—Girl Scouts of America; The American Cancer Society; Y.M.C.A.—Y.W.C.A.; National Foundation for Infantile Paralysis; CARE; Community Chest; Salvation Army; United Service Organization and United Hospital Fund.

Literary and Educational. Most of the colleges and universities come under this category, including leagues or associations set up for education to combat crime, improve public morals and aid public welfare.

A complete listing of the names of organizations to which deductions are permissible under this section of the code is published by the Federal Government and can be obtained from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. The title of the pamphlet is "Cumulative List, Organizations described in Section 170 (c) of the Internal Revenue Code of 1954, Revised to October 31, 1954, IRS Publication Vo. 78."

Non-Deductible Contributions

- (1) Contributions to any organization which devotes a substantial part of its activities to lobbying, seeking to influence legislation, or carrying on propaganda.
- (2) Gifts to individuals, political parties or to organizations seeking to benefit only restricted groups. The number of such organizations is very large in the United States. It would include:
 - (A) Fraternal groups such as the Masons, Odd Fellows, Knights of Columbus, etc. If these groups set up special organizations which are devoted exclusively to charitable, educational or other approved purposes, then the contribution is deductible.
 - (B) Professional groups, similar to those organized by lawyers, accountants and physicians, but if these groups set up special organizations that devote themselves exclusively to charitable or educational or approved purposes, then the contribution is deductible.
 - (C) Athletic clubs or clubs organized for social purposes.
 - (D) Cemetery associations not meeting the requirements of subsection (c) (5) of the Code mentioned on page 2 of this article.
 - (E) A group organized to promote athletic scholarships to a particular university.
- (3) Any organization, which at the time payment is made, is registered with the United States Attorney General, or which is required by final order of the Subversive Activities Control

Board so to register, as a Communist-front organization.

- (4) Contributions to an organization are not deductible if any part of its income goes to the benefit of a private shareholder or individual. This would include contributions to hospitals and schools privately operated for profit and it makes no difference if the profits were not earned. A contribution will ordinarily *not* be allowed as a deduction if you receive something equal in value in return for your contribution. For instance, you cannot deduct the tuition payments you make to a parochial or other church sponsored school for the education of your children. Likewise, you would not be allowed deduction for a contribution to a "home" that allows you to live there.

- (5) Contributions by business concerns or farmers.

Donations of business property are deductible at the fair market value of the property donated at the time of donation. The regulations of the Treasury department oppose a double deduction, once for the expenses incurred in converting raw materials into the finished product and again for the fair market value of the property donated. If the gift is in the form of farm products, livestock or manufactured goods, the regulations provide that:

- (A) If the item was in your opening inventory, such inventory must be reduced by the inventory value of the item donated.
- (B) If any costs were incurred in the current year pertaining to the item donated, no deduction for these costs is permitted.
- (C) If any costs were incurred in prior years pertaining

to the items donated, the fair market value of these items must be reduced by such cost.

Example I.

An accrual-basis farmer, who values his livestock by the unit-livestock-price method, donates livestock to a charitable organization on April 1, 1957. The fair market value of the livestock on this date is \$2,500. The inventory value of the livestock on January 1, 1957 was \$2,000, and the taxpayer incurred \$350 in maintaining the animals from January 1 to date of sale. The taxpayer is not required to include the \$2,500 value of the donated livestock in gross income. But he must reduce his opening inventory by \$2,000. This reduction will preclude deducting the same amount as cost of sales; likewise, he may not deduct the \$350 expenses attributable to the maintenance of the animals during 1957. He is entitled to a charitable contribution of \$2,500, subject to the percentage maximum.

Example II.

Assume the same facts as in Example I except that the taxpayer is on the cash basis. The animals were born on the taxpayer's farm in 1956. In 1956, the taxpayer deducted \$1,700 for expenses attributable to the raising of the donated animals. In 1957 the taxpayer paid \$350 maintenance expenses for the donated animals. The fair market value of the animals donated is excluded from gross income but the contribution deduction must be reduced by \$1,700 for the maintenance expenses incurred in 1956. His contribution in 1957 is reduced to \$800 (\$2,500-\$1,700) and he is not allowed a deduction of \$350 for maintenance expenses in 1957.

Amount of Contributions Deductible

The individual's deduction for contributions is the amount of contributions actually made in cash during his taxable year, subject to the following limitations:

- (1) 30% limitation—If contributions are equal or in excess of 10%

of taxpayer's adjusted gross income and made directly to the groups listed below, the maximum deduction permissible shall be 30% of adjusted gross income. Deduction is so limited for contributions to:

- (A) a church, or a convention or association of churches;
 - (B) an educational organization which normally maintains a regular faculty and curriculum, and has a regularly enrolled student body in attendance where its educational activities are carried on;
 - (C) an organization the principal purposes or functions of which are providing of medical or hospital care;
 - (D) a medical research organization directly engaged in the continuous active conduct of medical research in conjunction with a hospital, if certain conditions are met.
- (2) 20% limitation—If contributions are made to qualified organizations not listed above, the limitation is 20% of taxpayer's adjusted gross income.

Application of 30% and 20% limitation.
Example I.

Assume the taxpayer made the following contributions in 1957: Michigan State University \$2,000; First Baptist Church \$500; Humane Society \$500; Boy Scouts \$500; Home for Aged \$500; American Red Cross \$500; and Community Chest \$200. His income for the year consisted of: salary \$12,000; expense allowance by employer \$1,500; interest \$1,100; dividends \$1,400 and traveling expenses away from home \$1,000.¹ Taxpayer's adjusted gross would

be \$15,000 and his contribution deduction would amount to \$4,500 computed as follows:

Gross Income:			
Salary	\$12,000		
Expense allowance by employer	1,500		
Interest	1,100		
Dividends	1,400		
Total gross income		\$16,000	
Less: Deductions for adjusted gross income (Travel expenses)		1,000	
Adjusted gross income		\$15,000	
Deduction under 10% limitation:			
Michigan State University	\$ 2,000		
First Baptist Church	500		
Total	\$ 2,500		
10% of \$15,000	1,500	1,500	
Balance, deductible under 20% limitation			
	\$ 1,000		
Humane Society	500		
Boy Scouts	500		
Home for Aged	500		
American Red Cross	500		
Community Chest	200		
Total contributions under 20% limitation	\$ 3,200		
20% of \$15,000	3,000	3,000	
Total deduction allowable		\$ 4,500	
Disallowed contribution	\$ 200		

Example II.

Assume the same facts as in Example I except that taxpayer did not make a contribution to Michigan State University of \$2,000. His contribution deduction would be \$2,700, computed as follows:

¹Which is that part of the \$1,500 expense allowance actually spent for travel.

Deduction under 10% limitation is \$500, the full amount of his contribution to the First Baptist Church since this amount does not exceed \$1,500 (10% of \$15,000).

Deduction under 20% limitation:

Humane Society	\$ 500
Boy Scouts	500
Home for Aged	500
American Red Cross	500
Community Chest	200

Total	\$2,200
-------	---------

Since this does not exceed \$3,000 (20% of \$15,000) the entire amount is deductible. The total allowable deduction in this illustration is \$2,700 (\$2,200 + \$500).

Example III.

Assume the same facts as in Example I except that taxpayer did not make a contribution to State University of \$2,000 and made a contribution of \$2,500 to the Boy Scouts instead of \$500. His contribution deduction in this case would amount to \$3,500 computed as follows:

Deduction under 10% limitation is \$500.

Deduction under 20% limitation is computed as follows:

Humane Society	\$ 500
Boy Scouts	2,500
Home for Aged	500
American Red Cross	500
Community Chest	200

Total	\$4,200
-------	---------

20% of \$15,000 (maximum)	3,000
---------------------------	-------

Disallowed contributions	\$1,200
--------------------------	---------

Property Donations

Property donations are deductible at the fair market value of the property donated. Securities that have appreciated in value over the years are significantly available for donations. The general rules to follow in making donations of this kind are—

- (A) If the property cost less than its fair market value at time of donation, it would be preferable to

donate the property and avoid the capital gains tax on the sale.

- (B) If the fair market value is below cost it is preferable to sell the property, realize the loss and donate the cash proceeds.

- (C) If the property is a personal asset (painting, automobile) no loss is possible on a sale. Your only gain is derived by giving it to a recognized charity.

Example I.

Taxpayer owns securities which cost \$7,500 several years ago and could be sold for \$25,000 in the market. A sale of these securities would give him a long term capital gain of \$17,500 and cost him a maximum in taxes of \$4,375, leaving \$13,125 for donation. By making a gift of these securities he can claim a charitable contribution of \$25,000, subject to the percentage maximum.

Example II.

Taxpayer owns securities which cost \$20,000 several years ago but are worth only \$5,000 in today's market. A donation of these securities would give him a charitable deduction of \$5,000. But if the securities are sold for \$5,000 and a cash donation made of the proceeds, taxpayer would have a long term capital loss of \$15,000.

High tax rates make the net cost of giving considerably less than the dollar value of the gift, because of the deduction allowed. A married couple, for example, with a taxable income of \$10,000 can make a charitable contribution at a cost of \$74 per \$100 given. If their taxable income were \$50,000, the cost of giving \$100 would be only \$41.

The table below shows the approximate net cost per \$100 of a deductible charitable gift by individual taxpayers in illustrative tax brackets.

Blood Donations—

Furnishing blood for a transfusion, or to a blood bank, is analogous to the rendering of a personal service by the

*Cost per \$100 of Deductible Charitable Contributions**If taxable income before deducting contributions is**Cost per \$100 of Deductible Charitable Contribution is*

<i>Not less than</i>	<i>But less than</i>	<i>For Single Person</i>	<i>For Married Persons Filing Joint Return</i>	<i>For Head of Household</i>
\$ 8,000	\$ 10,000	\$66	\$74	\$70
10,000	12,000	62	74	68
14,000	16,000	53	70	61
20,000	22,000	44	62	53
32,000	38,000	35	50	42
44,000	50,000	28	41	34
50,000	60,000	25	41	32
70,000	80,000	19	35	26
100,000	150,000	11	25	17
200,000	300,000	9	11	10

donor rather than a contribution of "property" and the fair market value of blood donated by an individual to a charitable institution is not deductible as a charitable contribution.

Rev. Rul. 162, 1953-2 CB 127.

Services Donated—

The value of services rendered to charitable institutions is not deductible as contributions, but taxpayers who give their services gratuitously to charitable organizations may deduct as "charitable contributions" the cost of unreimbursed traveling expenses, including the amounts spent for food and lodging while away from home in connection with the organization's affairs. The expenses are subject to the limitations applicable to charitable contributions and are not deductible as unreimbursed travel expenses incurred in carrying on a trade or business.

Rev. Rul. 55-4, 1955-1 CB 291.

Unreimbursed Travel Expenses—

Expenses of a delegate to a church conference or an American Legion convention, paid by himself, are not charitable contributions, but personal expenses, and not deductible.

I.T. 1988 III-1 CB 198.

Traveling expenses incurred by an uncompensated officer and member of an exempt civic league or organization

in connection with gratuitous services to such organization are not deductible as charitable contributions since such organization is not one to which deductible contributions may be made under 1954 Code Sec 170.

Rev. Rul. 55-151, 1955-1 CB 28

Other Gifts Allowable as Deductions

- (A) Excess over regular admission charge paid for "benefit" tickets. Charitable organizations frequently sell tickets to a motion picture or play for an amount higher than the regular admission charge. The difference between the regular admission charge and the higher amount is a charitable contribution.
- (B) Dinners given to members for organizational work.
- (C) Food baskets given as donations.
- (D) Cost of cakes or food furnished to bazaars.
- (E) Household articles, books, clothing, paintings, given for sale in fund-raising auctions and bazaars.
- (F) Cost of required uniforms, shoes, gloves, and other materials of any individual working for the Red Cross or similar organizations, provided his services are given gratuitously.

Reading For Business and Pleasure

This issue of *Business Topics* may find the reader with some Christmas gift money still hot in his pocket, though to be solvent in January seems a contradiction in terms. We have remarked before upon the business reader's inclination toward historical writing; with this pleasure in mind we recommend three books that span a period from 1335 to 2050, and cover the physical world as well. A detailed study of the actual life of a 14th century business man affords a literally unparalleled opportunity to match one's own professional life with that of a mediaeval opposite number. A sympathetic study of thirteen Americans who are usually relegated to footnotes casts sidelights upon our economics as well as on Michigan history. Lastly, the projection into the future is particularly timely during the first months of heightened speculation about space flight.

Iris Origo, *The Merchant of Prato* (New York: Alfred A. Knopf, 1957). The private papers of Francesco Di Marco Datini, merchant, factor and philanthropist, lay for centuries in a dusty corner of his house in Prato. This heap of parchment, comprising every letter and business document he, or the managers of his far-flung branch houses, ever received, forms a collection that is historically unique. When it came to light in the last century (150,000 letters, over 500 account books and ledgers, documents of all kinds down to checks and receipts) scholars realized the extent of this incalculable trove's importance for the history of business. The present volume is the first attempt to reconstruct the whole picture of the daily life of the writer, in his business, civic and family activities. It is beautifully illustrated from contemporary paintings and manuscripts, and fully annotated. A minor drawback to one's satisfaction in reading is the author's painstaking translation of the documents into an archaistic English full of *God wots*, *weens*, *methinks* and

similar locutions, giving a misleadingly Shakespearian cast to a practical man's non-literary style. However, the book is to be very highly recommended to the business reader and his friends.

Russel B. Nye, *A Baker's Dozen* (East Lansing: Michigan State University Press, 1956). The thirteen unusual Americans here are the sort of people usually met in passing in the histories. Harman Blennerhasset, for example, flashes through the early 19th century like a comet intercepting the orbits of Jefferson and Aaron Burr. Vallandigham, "the sharpest thorn in Lincoln's side" at the beginning of the Civil War, plays out his role and disappears from politics. Nat Turner, leader of a slave revolt, and Elijah Lovejoy, the martyred abolitionist editor, play small but definite roles in history. One wants at times to know more about these footnote characters, and this is the book to satisfy such curiosity. The business reader will be much interested in the Oneida Experiment's rise in the utopian vision of John Humphrey Noyes, and its decline into the respectable Oneida Community, makers of silverware. Amateurs of Michigan history will encounter such fascinating characters as King Strang, monarch of Beaver Island, and Simon Girty the renegade, whose Indian raiders were a terror to frontier settlers. Legend has it that when the Americans occupied Detroit at last in 1796, Simon Girty was the last of the British partisans to leave, jumping his horse into the river and swimming across to Canada.

Harrison Brown, Bonner, Weir, *The Next Hundred Years* (New York: the Viking Press, 1957) is the engrossing result of a series of symposia on resources and population problems for industry, given at the California Institute of Technology. The President of this institute points out in his preface that forecasts of this nature have more than a pleasurable and imaginative interest for us.

Though admitting that any forecast of this nature made in 1857 would be fantastically wrong today, he claims it is safe to assume that needs for power and natural resources will continue to increase, and that forecasts on this basis can be of great value.

The particular application of such a study to business is noted as follows:

The modern corporation, as contrasted with an individual, is a long-lived entity. A successful corporation will, it can be hoped, still be in existence one hundred years hence, after all its existing personnel—and indeed their children and grandchildren too—have gone. Yet it is becoming increasingly evident that the success of a corporation and the success of a nation, a century

hence, will depend on what it is doing today. Therefore an increasing interest is to be found among corporation executives in trying to peer into the future and to ask how company policies today can best be adapted to potential future developments.

The unity of this work is impressive, considering that it is the result of some thirty long conferences with top executives of individual company groups. The book is very highly recommended for its scope, its intelligent consideration of the basic nature of problems ("the question as to what constitutes available raw material is in large part a question of energy") and its reduction of complex material to a comprehensible form.

Anne C. Garrison

A FEW MOTTOES FOR THE OFFICE

Talk of nothing but business and dispatch that business quickly.

Aldus Manutius, placard on door of his printing office at Venice (c. 1500)

A conference is a gathering of important people who, singly, can do nothing but together can decide that nothing can be done.

Fred Allen, letter to William Martin, President of the New York Stock Exchange, 25 January, 1940

He that hath little business shall become wise.

Ecclesiasticus xxxviii 24 (c. 190 BC)

Business is the Salt of Life, and Action strengthens the brain.

Thomas Fuller, *Gnomologia*, 1732

Fasting and good business
Help man flee the lusts of the flesh.

Cursor Mundi (c. 1350, adapted)

Great is work for it honors the workman.

Babylonian Talmud

CURRENT BUSINESS CONDITIONS

Dr. JOHN H. HOAGLAND*

The most serious business recession since World War II continues, and business conditions are progressively deteriorating. The bottom of the current business recession has not been reached, with the worst yet to come. There is danger that the present business decline will reach the proportions of a depression before substantial improvements are achieved.

By many measures 1957 was a year of success; it was also the prelude of problems which will plague the business communities during 1958. The year 1957 can be characterized by declining business activity, continued inflation and unrealistic optimism. These are also the characteristics of the beginning of 1958. The increasing storm warnings of 1957 were largely unheeded; and now, in 1958, business faces the growing storm without adequate preparation.

Production Activities

Industrial Production has suffered its sharpest general decline since late 1953. As measured by the Federal Reserve Board's seasonally adjusted index, industrial production by November (latest figure available) slipped to its lowest level since July, 1955 (excluding the 1956 steel strike). December production declines should carry this index even lower.

Already the F.R.B. index of industrial production has dropped eight points below its peak of 147, reached in December, 1956. This 1957-58 decline will undoubtedly exceed the 14-point decline of 1953-54. For 1957, the F.R.B. seasonally adjusted index of industrial production has been as follows:

Jan. — 146	May — 143	Sept. — 144
Feb. — 146	June — 144	Oct. — 141
Mar. — 145	July — 144	Nov. — 139
Apr. — 143	Aug. — 145	(Preliminary)

Barron's Weekly Index of physical volume of business, adjusted for seasonal and long-term growth trends, also shows this dropping business activity:

<i>Week Ending</i>	<i>Barron's Index</i>
Aug. 3	102.4
Sept. 7	101.1
Oct. 5	99.2
Nov. 2	97.7
Nov. 9	96.3
Nov. 16	95.8
Nov. 23	95.3
Nov. 30	94.5
Dec. 7	94.8
Dec. 14	94.5
Dec. 21	94.2
Dec. 28	90.5

*Dr. Hoagland is Associate Professor of Management at Michigan State University.

Steel production did not achieve its much-predicted rise in the fourth quarter 1957 but instead has suffered a considerable decline. The American Iron and Steel Institute reports this tabulation for steel:

<i>Week Ending</i>	<i>Index 1947-49 = 100</i>	<i>% of Rated Capacity</i>
Nov. 2	127.1	79.7
Nov. 9	124.3	78.0
Nov. 16	123.9	77.7
Nov. 23	121.1	76.0
Nov. 30	114.9	72.1
Dec. 7	114.0	71.5
Dec. 14	110.2	69.2
Dec. 21	108.4	68.1
Dec. 28	85.0	53.4

Automobile production, for the last quarter of 1957, lagged behind that of the same period a year ago by eight percent (1,440,829 cars in 1957 vs. 1,567,589 in 1956). The production cutbacks which have already occurred, plus the large new car inventories, indicate that the 1958 models are not providing the boost to business activity that some had hoped. There will probably be further cutbacks in production; see later discussion of sales. So far automobile production has been:

<i>Week Ending</i>	<i>1957</i>	<i>1956</i>
Nov. 2	125,761	132,087
Nov. 9	136,621	135,637
Nov. 16	141,664	118,949
Nov. 23	151,676	159,925
Nov. 30	114,731	167,516
Dec. 7	139,367	158,431
Dec. 14	145,349	154,817
Dec. 21	140,451	99,579
Dec. 28	79,949	91,092

Railroad carloadings continue to show considerably declining activity. From a drop of only 2.2 percent for the first eight months of 1957, they now have dropped as follows:

<i>Week Ending</i>	<i>% Change From 1956</i>	<i>% Change From Preceding Week</i>
Nov. 2	-10.8	+ 1.5
Nov. 9	-12.6	- 5.4
Nov. 16	-15.3	- 4.1
Nov. 23	-15.3	- 2.7
Nov. 30	-26.4	-12.5
Dec. 7	-16.3	+11.6
Dec. 14	-15.9	- 2.4
Dec. 21	-15.5	- 2.1

Electrical output continues to be ahead of last year but considerably behind its usual ten percent increase. Soon even this measure of business activity may fall behind the rate of a year ago.

<i>Week Ending</i>	<i>Compared to Same Week 1956</i>
Jan. 2	+3.2%
Jan. 9	+3.4%
Jan. 16	+3.1%
Jan. 23	+6.1%
Jan. 30	-3.8%
Dec. 7	+2.2%
Dec. 14	+2.9%
Dec. 21	+1.5%
Dec. 28	+0.2%

Construction activity, as a total, continued on a high plateau through November with gains in public-owned projects offsetting the continued decline in private construction. Leading the November declines was a 19 percent drop in industrial construction. Through November, the number of housing contracts totaled only 940,000—a four percent drop compared to the 1956 comparable period. Although there are predictions that 1958 construction activity will exceed that of 1957, these predictions should be examined carefully. Such public construction as the federal highway program may not be expanded enough to offset declines which will occur in private construction. Housing construction during 1958 will be considerably dependent upon what additional stimulus the federal government provides in this area.

Consumption Activities

Department store sales have shown signs of consumer resistance for many weeks, but a slight additional spurt of activity during the two weeks preceding Christmas temporarily reversed the downward trend. For the year 1957, department store dollar sales were one percent above those of 1956. Since price increase during 1957 more than account for this one percent sales-dollar increase, one must regard the 1957 department store physical volume as being lower than that of 1956. During the last two months of the year, department store sales were as follows:

<i>Week Ending</i>	<i>% Change for 1956</i>
Nov. 2	- 2
Nov. 9	- 1
Nov. 16	- 6
Nov. 23	+ 4
Nov. 30	-19
Dec. 7	- 5
Dec. 14	+ 3
Dec. 21	+ 4

Chain store activity, as measured by a survey of 47 of the nation's chain stores, indicates declining consumer spending has occurred in every major type of chain store except drugs.

Type of Store	Percentage Change For Year Earlier		
	Nov., 1957	Oct., 1957	Jan.-Sept., 1957
Variety	+ 0.8	+ 1.1	+ 2.9
Grocery	+ 8.7	+ 9.9	+ 9.9
Mail Order	- 3.6	+ 1.7	+ 6.2
Women's Wear	+ 2.9	+ 0.6	+ 7.9
Men's Wear	-13.9	- 1.2	+ 1.2
Shoe	+ 4.0	+ 4.7	+ 8.4
Auto Accessory	- 5.4	+ 3.8	+ 7.1
Junior Dept. Store	- 0.4	+ 4.4	+ 3.1
Drugs	+14.2	+14.8	+11.0

Appliance sales have slipped considerably during 1957 as indicated by the shipments of big electrical appliances during 1957. The only item to gain in 1957 was "built-in ranges," and their 40,000 unit gain was more than offset by the 260,000 unit decrease in "standard ranges."

	(Thousand Units)		% Change
	1957	1956	
Dehumidifiers	225	275	-18.2
Dishwashers	390	400	- 2.5
Food Waste Disposers	550	610	- 9.8
Farm Home Freezers	925	975	- 5.1
Ranges (Standard)	940	1,200	-21.7
Ranges (Built-in)	425	385	+10.4
Refrigerators	3,350	3,700	- 9.5
Water Heaters	800	870	- 8.1

Paperboard new orders and order backlog have now joined the other statistics in slipping behind 1956. Earlier this fall the overoptimists had tried to use high "new orders" in paperboard to camouflage the true business picture.

Week Ending	(Thousand Tons)			
	New Orders		Order Backlog	
	1957	1956	1957	1956
Nov. 2	358.3	372.5	481.3	490.5
Nov. 9	281.3	276.8	485.4	477.6
Nov. 16	240.7	231.3	433.3	429.0
Nov. 23	250.8	202.5	388.7	373.3
Nov. 30	237.8	287.4	355.2	407.8
Dec. 7	316.7	237.8	410.0	451.2
Dec. 14	254.4	249.2	368.3	416.2
Dec. 21	206.3	207.8	276.5	340.6

Automobile sales for 1957 totaled about 5.8 million cars, far short of the 6.5 million originally predicted by some. The 1958-model cars also are not selling as well as some predicted, and 1958 cannot be expected to be an outstanding year for car sales. An optimistic forecast for 1958 car sales would be 5.5 million cars, and sales may fall far short of this figure. The 1957 models were not satisfactorily cleaned out before the introduction of the new models;

and even now, some of them still overhang the 1958 market. New car inventories are estimated to be about 800,000 units, 275,000 more than a year ago. There is buyer resistance to the higher list prices of the 1958 models. Ironically, it was largely the new-car price increases that caused the Bureau of Labor Statistics consumer price index to increase 0.4 percent in November, which, in turn, caused labor wage increases in much of the automobile industry.

Machine tool orders have dropped drastically this year. In October and November, they leveled off at about 28 billion dollars, after falling from 63 billion dollars in January. Shipments have also been falling and in November tumbled to 47.4 billion dollars from 60.9 billion in October. The machine tool order backlog has diminished from a six-months backlog in January to almost negligible proportions at the present time.

Inventories still are a problem to business in 1958. They have not been reduced as far as they should have been during 1957. Their reduction during 1958 will further aggravate the present business decline. Latest government statistics for manufacturers shows the change from November, 1956 to November, 1957 to be:

Inventories	up	1.6 billion dollars
Sales	down	1.3 billion dollars
New Orders	down	3.3 billion dollars
Unfilled Orders	down	11.6 billion dollars

Consumer installment credit continued to expand during 1957, especially in the areas of automobile credit and personal loans. More collection problems and repossessions of new cars are being encountered. With about one half of all families making installment payments, amounting frequently to 20 percent of their income, one wonders what will be the outcome as personal incomes continue to decline and unemployment increases considerably. The sales outlook for many items is not encouraging for 1958.

Summary

Industrial production is declining sharply as measured by the Federal Reserve Bank Index of industrial production, Barron's Weekly Index, steel production, automobile production, railroad carloadings, and electrical output. Consumer resistance is evident in department store, chain store, appliances, paperboard, automobile, and machine tool sales data. Inventories are still high and installment credit has continued to expand. A serious business recession is certainly developing. Some are predicting the end of this recession by the fall of 1958, but many of these predictors are the same soothsayers who only a very few months ago were saying that the 1957 difficulties would not lead to a recession. Realistic evaluations of the present situation are essential if this recession is to be prevented from becoming a dangerous depression. Too many have too long followed the tactics of the ostrich in their business analysis. Increased expenditures for national defense will provide some stimulus to business during 1958 but these increases should not be allowed to lull the business community into a false sense of business or defense complacency.

MICHIGAN BUSINESS STATISTICS

Bank Debits

City	Bank Debits (Thousands of \$'s)			Percent Change from Previous Year		
	Sept. '57	Oct. '57	Nov. '57	Sept. '57	Oct. '57	Nov. '57
Adrian	26,132	28,615	28,938	+ 9.4	+ 6.4	+8.4
Battle Creek	78,071	77,747	76,249	+13	+ 7.6	+7.7
Bay City	54,134	62,531	58,731	+ 3.1	+10.4	+6.9
Detroit	6,227,595	6,368,228	6,144,172	+15.5	+ 1.4	-5.6
Flint	164,362	163,815	157,240	+ 8.7	- 0.5	-2.7
Grand Rapids	330,397	342,447	328,375	+ 6.4	- 3.0	-0.7
Jackson	95,317	96,733	90,955	+14.5	- 0.9	-5.1
Kalamazoo	150,244	165,169	147,415	+ 6.3	- 1.5	+0.9
Lansing	151,538	166,588	145,250	+ 7.2	+ 9.3	-6.5
Muskegon	94,498	90,857	86,346	+13.0	+ 4.8	-0.6
Port Huron	38,787	39,884	40,625	- 3.2	- 2.8	-1.7
Saginaw	117,090	129,134	122,123	- 2.3	- 2.6	-2.7
Escanaba	13,086	14,874	12,419	+19	+14	+6
Marquette	15,212	15,974	14,221	+10	+ 5	-1
Sault Ste. Marie	11,237	11,954	10,216	+ 8	- 3	+1

Sources: Federal Reserve Banks of Chicago and Minneapolis and Board of Governors of the Federal Reserve System

Department Store Sales

	September '57 Percent Change from Aug. '57 Sept. '56		October '57 Percent Change from Sept. '57 Oct. '56		Percent Change 1957 vs. 1956
	Aug. '57	Sept. '56	Sept. '57	Oct. '56	
Battle Creek	- 7	+ 4	- 6	+ 1	+ 3
*Detroit	- 2	- 2	+ 2	- 2	+ 2
*Flint	- 6	-15	+ 3	-13	-10
*Grand Rapids	+ 4	- 4	- 7	- 7	- 6
*Jackson	- 3	- 1	- 3	- 3	- 2
*Kalamazoo	-19	-19	+19	- 6	-10
*Lansing	+ 7	- 5	- 9	+ 5	0
Muskegon	- 6	-12	- 1	- 8	- 6
Port Huron	- 7	-12	- 3	- 3	+ 4
*Saginaw	-10	- 9	+ 8	- 3	- 4

*Metropolitan Areas

Source: Federal Reserve Bank of Chicago

Electric Sales in Kilowatt Hours for State of Michigan

	Thousands of KWH Sales			Percent Change from Previous Year		
	Sept. '57	Oct. '57	Nov. '57*	Sept. '57	Oct. '57	Nov. '57*
Residential	555,379	572,762		+ 8.3	+ 9.2	
Commercial	358,980	336,518		+ 7.8	+ 6.9	
Industrial	873,729	950,681		+ 5.6	- 0.6	

Source: Edison Electric Institute

*These figures are not available at this time.

Motor Vehicle Factory Sales from Plants in U. S.

	Factory Sales			Percent Change from Previous Year		
	Sept. '57	Oct. '57	Nov. '57	Sept. '57	Oct. '57	Nov. '57
Passenger Cars	318,279	291,064	583,783	+57.4	-17.3	+1.2
Motor Trucks	62,087	88,019	92,925	+ 9.2	- 5.0	+3.0
Motor Coaches	243	233	241	-33.2	-21.8	+3.4

Source: Automobile Manufacturers Association

